

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF KENTUCKY)	CASE NO.
POWER COMPANY FOR THE TWO-YEAR)	2015-00280
BILLING PERIOD ENDING JUNE 30, 2015)	

ORDER

On May 27, 1997, the Commission approved Kentucky Power Company's ("Kentucky Power") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), the Commission must review and evaluate the past operations of the environmental surcharge at two-year intervals. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. Therefore, the Commission hereby initiates the two-year review of Kentucky Power's surcharge as billed from July 1, 2013, through June 30, 2015.²

On March 29, 2013, Kentucky Power filed with the Commission written notification of its election pursuant to 807 KAR 5:001, Section 8, to use the electronic filing procedures in all future company six-month and two-year environmental surcharge

¹ Case No. 1996-00489, *The Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Wastes and By-Products* (Ky. PSC May 27, 1997).

² Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 2013 through June 2015 are based on costs incurred from May 2013 through April 2015.

review proceedings.³ As 807 KAR 5:001, Section 8, permits the Commission to direct the use of electronic filing procedures for proceedings which we initiate on our own motion, we find that electronic filing procedures should be used. As such, Kentucky Power shall follow the procedures set forth in 807 KAR 5:001, Section 8, when filing any document or paper in this matter.

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, Kentucky Power is to file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the time period under review; and (b) on a proposal to roll in its environmental surcharge into existing base rates. In addition, Kentucky Power is to file its response to the information requested in Appendix B to this Order. Since over- or under- recoveries may have occurred during the period under review in this proceeding, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since the approval of its original environmental compliance plan and surcharge mechanism, Kentucky Power has sought and been granted four amendments to its original compliance plan and surcharge mechanism. Due to the termination of the AEP–East Pool Agreement on January 1, 2014, costs associated with the second and third amendments are no longer incurred by Kentucky Power, and therefore are no longer included in its environmental surcharge filings. For this two-year review period, the environmental surcharge provides recovery of the incremental costs associated with the original and first, second, and third amendments to the compliance plan for the

³ Letter from Mark R. Overstreet, Counsel for Kentucky Power Company, to Jeff Derouen, Executive Director, Public Service Commission (Mar. 29, 2013).

billing months July 2013 through February 28, 2014. For the billing months of March 2014 through June 2015, the environmental surcharge provides recovery of the incremental costs associated with the original plan and the first amendment. The fourth amendment was approved June 22, 2015, in Case No. 2014-00396,⁴ and will become effective with the billing month of August 2015. When determining its over- and under-recovery of the surcharge in this proceeding, Kentucky Power should reflect the impacts of these prior cases, as applicable.

IT IS HEREBY ORDERED that:

1. Unless otherwise ordered by the Commission, the procedures set forth in 807 KAR 5:001, Section 8, shall be followed when filing papers in this proceeding.

2. Pursuant to 807 KAR 5:001, Section 8(9), Kentucky Power shall file with the Commission, within seven days of entry of this Order, a written statement, with a copy to parties of record, that:

a. Kentucky Power, or its authorized agent, possesses the facilities to receive electronic transmissions; and

b. Sets forth the electronic mail address to which all electronic notices and messages related to this proceeding should be served.

3. Unless a party granted leave to intervene states its objection to the use of electronic filing procedures in a motion for intervention, the party shall:

⁴ Case No. 2014-00396, *Application of Kentucky Power Company For: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (3) An Order Approving its Tariffs and Riders; and (4) An Order Granting all Other Required Approvals and Relief* (Ky. PSC June 26, 2015).

a. Be deemed to have consented to the use of electronic filing procedures and the service of all papers, including Orders of the Commission, by electronic means; and

b. Within seven days of the date of an Order of the Commission granting its intervention, file with the Commission a written statement that:

(1) It, or its authorized agent, possesses the facilities to receive electronic transmissions; and

(2) Sets forth the electronic mail address to which all electronic notices and messages related to this proceeding should be served.

4. If a party objects to the use of electronic filing procedures and the Commission determines that good cause exists to excuse that party from the use of electronic filing procedures, service of documents on that party and by that party shall be made in accordance with 807 KAR 5:001, Section 4(8).

5. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

6. Any party who submits a motion to intervene after October 16, 2015, and, upon a showing of good cause is granted full intervention shall accept and abide by the existing procedural schedule.

7. Kentucky Power shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.

8. a. The information requested herein is due by the date set forth in Appendix A to this Order. Responses to requests for information in paper medium shall

be appropriately bound, tabbed, and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with an original in paper medium and an electronic copy to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. Any party filing a document containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the document so that the personal information cannot be read.

9. Within seven days of the Commission's granting intervention to a party, Kentucky Power shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

10. Kentucky Power's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

11. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

12. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission



ATTEST:

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke at the end. It is positioned above a horizontal line.

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00280 DATED **SEP 01 2015**

Kentucky Power shall file its prepared direct testimony and responses to the information requested in Appendix B no later than	09/25/15
A person interested in becoming a party to this proceeding shall file a motion to intervene with the Commission pursuant to 807 KAR 5:001, Section 4(11), no later than	10/16/15
All additional requests for information to Kentucky Power shall be filed no later than	10/23/15
Kentucky Power shall file responses to additional requests for information no later than	11/06/15
Intervenor testimony, if any, in verified prepared form shall be filed no later than	11/20/15
All requests for information to Intervenors shall be filed no later than	12/09/15
Intervenors shall file responses to requests for information no later than	12/23/15
Last day for Kentucky Power to request a hearing or submit this case for decision based on the record.....	01/06/16

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00280 DATED **SEP 01 2015**

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO KENTUCKY POWER COMPANY

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing period. Use ES Form 1.00 as a model for this summary. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included in the billing period under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for the two-year review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

2. The net gain or loss from sulfur dioxide and nitrogen oxide emission allowance sales is reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For the last six expense months of the billing period under review, provide an explanation of how the gain or loss reported in the expense month was calculated and describe the transaction(s) that was the source of the gain or loss.

3. In Case No. 1996-00489, the Commission ordered that Kentucky Power's rate of return on common equity for the environmental surcharge would be reviewed for reasonableness during the two-year review case. Currently, the rate of return on common equity is 10.25 percent approved in Case No. 2014-00396.

a. Does Kentucky Power believe that the 10.25 percent rate of return on common equity for the environmental surcharge is reasonable? Explain the response, and include any analyses or evaluations supporting its conclusions.

b. If the response to part a. is "no," what rate of return on common equity does Kentucky Power propose for its environmental surcharge? Provide a detailed analysis and testimony supporting Kentucky Power's position.

4. Provide the following information as of April 30, 2015. In addition to the electronic filing, provide the information in Excel spreadsheet format with the formulas intact and unprotected.

a. The outstanding balances for long-term debt, short-term debt, accounts receivable financing, and common equity.

b. The blended interest rates for long-term debt, short-term debt, and accounts receivable financing. Include all supporting calculations showing how these blended interest rates were determined.

c. Kentucky Power's calculation of its weighted average cost of capital for environmental surcharge purposes.

d. The weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in the determination.

5. KRS 278.183(3) provides that, during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Does Kentucky Power believe any additional surcharge amounts need to be incorporated into its base rates in conjunction with this two-year review?

b. If the response to part a. is "yes," provide the additional surcharge amount that Kentucky Power believes should be incorporated into its existing base rates. Explain how the surcharge amount should be incorporated into the base rates. Include all supporting calculations, work papers, and assumptions as well as any analysis that Kentucky Power believes support its position.

6. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 17, Monthly 2003 Plan Non-Fuel O&M Expenses, from ES Form 3.13. For the November 2014 through April 2015 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

7. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 18, Monthly SO2 Emission Allowances. For the November 2014 through April 2015 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

8. Reference ES Form 3.11 for the months in this review period.

a. For each month in the two-year review period, provide the calculation that supports the total cost of allowances consumed that is then carried to ES Form 3.10.

b. Provide an explanation and the reasons for the fluctuations in the monthly average cost of allowances determined in 8.a.

9. Provide the actual average residential customer's monthly usage as of April 2015. Based on this usage amount, provide the dollar impact any over- or under-recovery will have on the average residential customer's bill for the requested recovery period. Provide all supporting calculations and documentation.

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